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SHOULD FUNDS INVEST IN SOCIALLY RESPONSIBLE INVESTMENTS DURING DOWNTURNS?

Financial and Legal Implications of the Fund Manager's Dilemma

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Abstract

Purpose – This paper investigates whether Socially Responsible Investment (SRI) is less sensitive to market downturns than conventional investments; the legal implications for fund managers and trustees; and possible legislative reforms to allow conventional funds more scope to invest in SRI.

Design/methodology/approach – The paper uses the market model to estimate betas over the past 15 years for SRI funds and conventional investment funds during economic downturns, as distinct from during more 'normal' (non-recessionary) economic times.

Findings – The beta risk of SRI, both in Australia and internationally, increases more than that of conventional investment during economic downturns. Traditional fund managers and trustees in Australia are therefore likely to breach their fiduciary duties if they go long - or remain long - in SRI funds during economic downturns, unless relevant legislation is reformed.

Research limitations/implications – The methodology assumes that alpha and beta in the market model are constant. This is the subject of ongoing research. Second, it categorises the state of the market into 'normal' economic conditions and downturns using dummy variables. More sophisticated techniques could be used in future research.

Practical implications – The current law would prevent conventional funds from investing in SRI. If SRI is viewed as socially desirable, useful legislative reforms could include explicitly overriding the common law to allow conventional funds to invest in SRI; introducing a 150% tax deduction or investment allowance for SRI; and allowing SRI sub-funds to obtain Deductible Gift Recipient status from the Australian Tax Office and other taxation authorities.

Originality/value – The accurate assessment of risk in SRIs is an area which, despite its serious legal implications, is yet to be subjected to rigorous empirical investigation.

Keywords - SRI, market model, GARCH, trust fund, fiduciary duties, market downturns, Australia.

Paper type: Research paper

Introduction

Socially Responsible Investment (SRI) is the process of selecting or managing investments with the aim not of maximizing investor returns for given risk *per se*, but of optimising these parameters subject to social, environmental and ethical constraints (eg. Oxford Business Knowledge, 2007, p.5). The aggregate value of SRI internationally has grown considerably over the past 30 years, to the extent that SRI is now keenly encouraged by the United Nations and other supra-national organisations. Specific share indices based on SRI, such as the Dow Jones Sustainable Index (DJSI) and London's FTSE4GOOD index, have developed, along with specialised research organisations such as the Sustainable Investment Research Institute (SIRIS). In the United States, SRI assets are worth US\$2.71 trillion (Social Investment Forum-United States (2007); in Canada, they are worth some C\$503 billion or US\$471 billion (Canadian Social Investment Organisation, 2006); the UK market is valued at €781 billion or US\$1.17 trillion (European Social Investment Forum 2006); and Japan's SRI markets are worth up to ¥840 billion or US\$7.3 billion (Social Investment Forum-Japan, 2007). The market in Australia is as yet comparatively undeveloped, with total assets invested in SRI are valued at A\$19.4 million or US\$17.3 million (Responsible Investment Association of Australasia 2007).

While the sector remained a relatively small part of investors' portfolios and equity markets were generally performing well, industry stakeholders such as investment fund trustees, their advisory boards and managers, investors, policy makers, legislators and

academicians, could be content to leave a number of potentially problematic issues unresolved. These issues include whether SRI performs as well as conventional investment during a market downturn; if not, whether conventional investment fund trustees and their advisory boards risk breaching their fiduciary duties at a time when conventional investment returns slump; and whether the law in this area is in need of practical reform. But now that the SRI sector has come of age and in the wake of the most catastrophic worldwide market downturn since the Great Depression, industry stakeholders can no longer afford to ignore these issues. The need to address them provides the motivation for this research. If they are left unresolved, we identify the risks for conventional fund trustees and their advisory boards. If industry stakeholders choose to address these issues, our paper provides some practical suggestions for their resolution, in the section entitled “Practical Implications”.

Objectives

This paper examines (1) the extent to which the risk-adjusted returns on SRI investments are similar to those of conventional investments during economic downturns; (2) whether SRI is, as posited by some previous studies, less risky and sensitive to economic downturns than conventional investments; and (3) our empirical findings on SRI performance in light of the existing law on conventional trustees’ fiduciary duties, to ascertain whether the current law requires reform.

As discussed in the following section, the existing literature is not clear as to whether SRI would perform better than conventional investment during market downturns. The contribution of this paper is to provide new evidence as to the investment performance of SRI during market downturns. This new evidence has disturbing legal implications for conventional fund trustees who seek to invest in SRI during market downturns because it shows that, by doing so, they risk breaching their fiduciary duties. These legal implications of SRI performance by conventional fund trustees during market downturns have not been explored in the literature to date. This paper is an attempt to address this important shortcoming in the literature.

This paper may appear to embody two stories in one – however, this is unavoidable in a cross-disciplinary paper of this nature, covering as it does both finance and law. It is in the context of cross-disciplinary research – in connecting the seemingly disparate threads of specialist learning – that some of the greatest contributions to knowledge have been made (Kuhn 1970).

Prior Literature

Most empirical studies around the world have reported that, before the global financial crisis (GFC), SRI funds internationally performed as well, in terms of annual risk-adjusted returns, as conventional (non-SRI) funds. This finding appeared to apply in the

United States¹; in the United Kingdom²; as between SRI and conventional funds from the United States, the UK and Germany³; as between such funds from the UK, Germany, Sweden and Netherlands⁴; and – albeit with some variation, depending on the time period studied – in Australia.⁵ All of this empirical evidence relates to periods before the current global financial crisis (GFC).

Anecdotal evidence, however, suggests that the period since the GFC has seen significantly lower investment returns and higher investment risks. In contrast, other studies such as Benson and Humphrey (2007) and Bollen (2007) posit that SRIs should be less sensitive to market downturns than conventional investments, because investors in SRI are investing not simply for profits, but also for other social or ethical objectives that provide them with utility. For this reason, these studies suggest that, even in tight economic times – as in the recent global financial crisis – SRI investors tend not to abandon their SRI investments (as they well might their conventional investments), implying arguably that SRI funds are not so risky as conventional funds. The first two objectives of this paper represent our attempt to resolve these apparently inconsistent findings in the literature.

From a legal perspective, if the risk-adjusted returns on SRI are similar to conventional investments in economic downturns, or if SRI is less risky in economic downturns than

¹ Diltz 1995, Guerard 1997, Sauer 1997, Gregory et al 1997, Bauer et al 2005, Hamilton et al 1993, Statman 2000, Goldreyer et al 1999, Renneboog et al 2007, Schroder, 2007, and Renneboog et al 2008.

² Gregory et al 1997 and Schroder, 2007.

³ Bauer et al 2005.

⁴ Kreander et al 2005.

⁵ Bauer et al, 2006.

conventional investments, then conventional fund managers and trustees are free to invest in SRI – and the question could be asked, at least in Australia, why they do not do so more. If, on the other hand, the risk-adjusted returns on SRI are significantly less than those on conventional investments in economic downturns, or if SRI is riskier in economic downturns than conventional investments, it begs the question of whether conventional fund managers and trustees would breach their fiduciary duties by investing in SRI.

Methodology and Data

We conduct our analysis within the context of the well-known market model or Capital Asset Pricing Model. The Capital Asset Pricing Model simply states that the systematic or diversifiable risk, Beta (β), of a portfolio composed of a subset of the assets of the market portfolio is:

$$\beta_i = \frac{\text{cov}(R_i, R_m)}{\text{var}(R_m)} \quad (1)$$

where the covariance $\text{cov}(R_i, R_m)$ between the return on the industry portfolio i and the market portfolio R_m is inversely related to the variance $\text{var}(R_m)$ of the market portfolio. Given that the covariance between the market portfolio and itself is simply $\text{var}(R_m)$, the beta of the market portfolio is by definition equal to one, against which the sector portfolio can be compared. A market portfolio which also has a beta equal to one, $\beta = 1$, is considered a neutral investment; an market portfolio with a beta less than one

$\beta < 1$ is considered a defensive or a relatively safe investment; while one with a beta greater than one $\beta > 1$ is considered to be an aggressive or relatively risky investment.

The market model can be used to estimate the unconditional beta for any asset using the following regression equation:

$$R_{it} = \mu_t + \beta_t R_{mt} + \varepsilon_{it}, \quad t = 1, \dots, T. \quad (2)$$

where R_{it} is the return series of a composite sector index for sector i ; R_{mt} is the market return index; and ε_{it} is the disturbance term of mean zero, which is presumed to be serially independent and homoscedastic. The intercept μ_t and slope β_t coefficients are presumed to be consistent over time, and it is the slope coefficient β_t which provides an estimate of the beta or systematic risk for sector i .

In practice, the estimation of equation (1) by ordinary least squares has proven to be problematic. Many studies including Brooks et al (1998) have found that beta is often time-varying and, while the returns series are usually found to be serially independent, the residuals are often found to be heteroscedastic and leptokurtic when compared to a normal distribution. Time-varying betas can be estimated using multivariate GARCH models, recursive regression or state space models. In the present case, it is not our intention to establish the magnitude of beta at every point, but rather to distinguish between the average value of beta when the returns are rising or falling. Accordingly, we add a dummy variable that represents the state of the market, described later, to the market model regression:

$$R_{it} = \mu + \beta R_{mt} + \omega(R_{mt} I_{t-1}) + \varepsilon_{it}, \quad t = 1, \dots, T. \quad (3)$$

where ω is the estimated coefficient which measures the shifts in the slope of the equation associated with negative returns in the previous period. Consequently β is an estimate of the systematic risk when returns are positive and the sector index is rising, while $(\beta + \omega)$ is an estimate of the systematic risk when returns are negative and the sector index is falling.

The problems associated with heteroscedasticity and leptokurtic residuals are modeled using the “generalized autoregressive conditional heteroscedasticity” or GARCH model introduced by Bollerslev (1986) which we estimate under the assumption that the residuals follow a t-distribution, rather than a normal distribution. The result is that the time variation in the variance of the error term in equation (3) is simultaneously estimated using the following equation:

$$\sigma_t^2 = \alpha + \gamma \varepsilon_{t-1}^2 + \delta \sigma_{t-1}^2 \quad (4)$$

This insures that the estimated coefficients in equation (3) are efficient and can be interpreted in the normal manner while the estimated coefficients in equation (4) have no practical implications for our analysis.

We use weekly closing price of four price indexes obtained from Morningstar which run from the 7/1/1994 to 29/5/2009 providing a total 804 observations. The first of these indexes, the Dow Jones Total Stock Market Index-World (DJTM World), captures price movement in the world’s traditional equity markets, while the second index – the Dow

Jones Sustainability Index-World (DJSI World) – is a subset of the first that captures price movements in a portfolio comprised of equities in SRI. The third index – the Dow Jones Total Stock Market Index-Australia (DJTM Australia) - represents price movement in Australian traditional equity market, and the fourth – the Dow Jones Sustainability Index-Australia (DJSI Australia) - captures price movements in a portfolio comprised of Australian equities involved in SRI businesses.

We transform each of these four indices into continuously compounded returns calculated as $R_t = \ln\left(\frac{P_t}{P_{t-1}}\right)$ and create two idiosyncratic dummy variables $I_{t,i}$ for DTJM –World and DTJM- Australia respectively. Each of these idiosyncratic dummy variables takes the value 1 if the relevant return series is less than zero $R_t < 0$ indicative of “bad news” and economic downturn, or 0 when the returns series is greater than or equal to zero $R_t \geq 0$ indicative of “good news” or more ‘normal’ economic conditions, in line with previous literature (see, for instance, Woodward and Anderson, 2009; Lunde and Timmerman, 2004; Maheu and McCurdy, 2000 among others).

Findings

We examined the performance of SRIs against conventional investments, both in Australia and internationally, in terms of total risk-adjusted returns. Table 1, below, presents a summary of our findings in terms of relevant statistics. It can be seen from this table that SRIs internationally (DJSI World) resulted in higher total risk-adjusted returns (5.2% pa on average) than conventional investments (DJTM World) [4.8% pa on

average]. With regard to investment just in Australia, however, our results showed that, prior to the GFC, SRIs (DJSI Australia) significantly under-performed conventional investments (DJTM Australia) in terms of total risk-adjusted returns (an average of 5.8% pa, compared with 7.1% pa, respectively). These results suggested that, even before the GFC, prudent fund managers would have been well advised to carefully consider precisely where in Australia they placed their investors' SRI funds. Since the GFC, it appeared from our preliminary research that, internationally, SRI had significantly under-performed conventional investment in terms of total risk-adjusted returns (-6.6% pa on average, as opposed to -5.7% pa respectively).

Table 1

Summary Statistics for Preliminary Analysis – Annualised Total Risk-Adjusted Returns

	DJSI Australia	DJTM Australia	DJSI World	DJTM World
Pre-GFC Sub-Period				
Mean	0.204	0.211	0.125	0.115
Standard Deviation	3.463	2.954	2.363	2.379
Mean/Standard Deviation	0.058	0.071	0.052	0.048
GFC Sub-Period				
Mean	-0.291	-0.368	-0.327	-0.302
Standard Deviation	8.096	6.710	4.946	5.335
Mean/Standard Deviation	-0.036	-0.055	-0.066	-0.057

The results from our market model testing of Equation 6 are presented in Table 2 below, which is divided into three panels. Panel A shows the estimated coefficients of the mean equation, and the relevant t statistics; Panel B sets out the estimated coefficients of the variance equation; and Panel C displays the model validation statistics for the mean equation.

Table 2
Estimates of Coefficients of Equation 6

	SIW on TMW		SIA on TMA		SIA on SIW		TMA on TMW		SIA on TMW	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Coef	T-Stat	Coef	T-Stat	Coef	T-Stat	Coef	T-Stat	Coef	T-Stat
Panel A	The Mean Equation: $R_{it} = \mu + \beta R_{mt} + \omega(R_{mt} I_{t-1}) + \varepsilon_{it}$									
μ	0.000	1.051	0.000	-0.233	0.002	2.221	0.002	3.144	0.002	2.193
β	0.992	87.925	1.102	44.360	0.265	4.676	0.355	9.020	0.263	4.827
ω	0.043	2.733	-0.069	-2.129	0.157	2.301	-0.021	-0.363	0.164	2.202
Panel B	The Variance Equation: $\sigma_t^2 = \alpha + \gamma \varepsilon_{t-1}^2 + \delta \sigma_{t-1}^2$									
α	0.000	1.784	0.000	1.259	0.000	1.494	0.000	1.215	0.000	1.558
γ	0.098	4.141	0.080	4.333	0.070	3.710	0.050	3.440	0.075	3.789
δ	0.891	36.74	0.920	56.50	0.921	41.41	0.939	45.26	0.915	38.98
T-DIST	9.666	2.709	8.858	3.107	8.802	3.510	9.119	2.938	9.071	3.484
Panel C	Summary Statistics									
R ²	0.933		0.581		0.112		0.297		0.100	
DW	2.251		2.245		2.092		2.217		2.108	
Q-Stat(12)	17.63	(0.12)	15.19	(0.23)	13.30	(0.35)	15.02	(0.24)	14.70	(0.26)
H-Stat(12)	9.992	(0.62)	3.986	(0.98)	12.72	(0.39)	18.62	(0.10)	13.48	(0.34)
The Q-stat and H-Stat use the Ljung-Box test on the residuals and squared residuals up to the twelfth lag: p-values in ().										

Note: Practically the same results are obtained when the market model is estimated based on risk premia. The alphas are all insignificantly different from zero for both SRI and conventional investments in the Australian and international cases at the 95% level.

Turning first to Panel C, the summary statistics, we find that, in each case, the null hypothesis – that residuals of the three models are free from autocorrelation in both the first and second moments, as indicated by the Q-Stat and H-Stat tests respectively (with p-values in brackets) – cannot be rejected. In each case, the Durbin-Watson statistic indicates that the residuals are free from auto-correlation at the first lag. The coefficient of determination, R², measures the variability in the dependent variable - the returns on

sustainable investments, in all but columns (7) and (8) - that are explained by the variability of the independent variable, the returns on the market. In the first case, the international equity markets, 93% of the variations in the returns on sustainable investment are explained by returns on the market portfolio (TMW). In second case, the Australian markets, 58% of this variation is explained by the model; and, in the third case, only 11% of the variation in sustainable investment in the Australian market is explained by variation in the international markets for sustainable investments.

Panel B contains the estimated coefficients of the variance equations and their respective t-statistics. The results here are as one would expect - the intercept terms, α are not significantly different from zero while the ARCH, γ and GARCH, δ , terms are significant in every case. These two terms sum to approximately one indicating that, firstly, volatility shocks are quite persistent; and secondly, the estimate of the number of degrees of freedom for the t-distribution used to model the residuals is quite small, revealing that in every case this distribution is more appropriate than the normal distribution.

Perhaps most importantly, Panel A sets out the estimated coefficients of beta for the relevant regressions. The first two columns contain the estimates in relation to the international market for SRIs and conventional investments. As can be seen, the estimate of beta is highly significant and indistinguishable from 1 – ie. the beta of the whole market. The estimated coefficient on the dummy variable indicative of bad news is

positive and significantly different from zero, indicating that beta increases in response to bad news – that is, to a downturn in the market.

Columns (3) and (4), which focus on the Australian market for SRIs and conventional investments, show a somewhat different picture. Again, the beta coefficient is highly significant and larger than one in magnitude, indicating that, under normal economic conditions, investing in SRIs in Australia is riskier than investing in conventional investments. The dummy variable is also significant but has a negative sign, indicating at first glance that investing in SRIs in Australia is slightly less risky (though only just) during an economic downturn than investing in conventional equities in Australia.

Columns (9) and (10) show the results of regressing Australian SRI returns against conventional investment returns internationally. In column (9), the coefficient for beta is significant at 0.263, indicating that, from a world perspective (eg. that of a fund manager in New York), Australian SRIs are relatively low risk, compared with conventional investments internationally. The dummy variable in column (9) is, at 0.164, marginally positive and significant, indicating that when the world experiences an economic downturn, the systematic risk of Australian SRIs increases marginally.

This result is consistent with the estimates shown in columns (5) and (6), in which we model Australian SRIs in the context of SRIs internationally. This model differs slightly from the preceding two in that dummy variables indicative of bad news in the previous period have been included for both the international and the Australian SRI markets.

This addition was not necessary in respect of the other two models because the markets' two return series are so highly correlated that the second dummy variable series would be redundant, indicative as it would be of the same changes in returns.

The estimate of the beta in this context is again small though significant, indicating that under 'normal' economic conditions, SRIs in Australia are less risky than SRIs internationally. In terms of the two dummy variables in this model, the estimated coefficient in respect of the dummy variable for an economic downturn in Australia was not significant; however, the dummy variable for an economic downturn internationally was marginally positive and is statistically significant.

For the sake of completeness, columns (7) and (8) show the results of modeling conventional investment in Australia as a subset of conventional investment internationally. The significant beta coefficient shows that conventional investment in Australia is less risky on average than conventional investment internationally. Again, this models included dummy variables indicative for "bad" news (an economic downturn) in both the Australian and international markets. Here the estimated coefficients in the model for conventional investment are insignificantly different from zero, indicating that when international stock markets decline, conventional investment returns in Australia follow those of international conventional investments downward.

Research Limitations

The model that we have estimated in this study is not without limitations. The methodology assumes that alpha and beta in the market model are constant. This is the subject of ongoing research. Second, it categorises the state of the market into ‘normal’ economic conditions and downturns using dummy variables. More sophisticated techniques could be used in future research.

The fact that we have found statistically significant differences in the betas between periods of increasing and decreasing returns suggests that the betas are in fact time-varying to some extent. In the present case, this is not in itself particularly important - ‘average’ betas (which are in effect what we have estimated here) have been shown to vary very little from the averages of time-varying betas estimated using more complex methods. (see, for example Brooks et al, 2001).

Consequently, we believe that the simplicity of the model presented here has much to recommend it in terms of accessibility. Moreover, given that it is not our intention to obtain the best possible estimates of beta or to forecast returns, but to simply establish if they are affected by the direction of the market, it is unlikely that a more complex method of analysis would produce results that differ in any relevant way from those presented here.

Nevertheless, it would be possible to investigate the causes of the observed changes in beta in these markets using more complex methods. Recall that beta is defined, as in equation (2) as the ratio of the covariance between the industry portfolio and the market and the variance of the market.

$$\beta_i = \frac{\text{cov}(R_i, R_m)}{\text{var}(R_m)} \quad (7)$$

The model used here estimates the differences in the magnitude in this ratio when the market is rising and falling. These differences can be caused by changes in the covariance between the industry and the market, the variance of the market, or both. These effects could be distinguished using a multivariate version of the GARCH model, which allows the variance of the two series and the covariance between them to be estimated at every point of time. This would then allow the calculation of time-varying betas. The important point is that this more complex model would only serve to explain the source of the difference in beta that we have observed, in terms of the impact of good and bad news upon the covariances and variances, rather than upon the ratio of the two. While this is not without interest, it would add little to the topic at hand and we leave it for future research.

Practical Implications

Our findings have important implications for fund managers. First, for an Australian fund manager whose trust deed or taxation status limits it to investments within Australia, SRIs are normally riskier than conventional investments. During an economic downturn when conventional equity investment returns decline, SRI returns also decline (though interestingly, not by as much –consistent to some extent with Benson and Humphrey

2007 and Bollen 2007). Second, for a fund manager – whether based in Australia or overseas – who is able to invest globally, SRIs are normally as risky as conventional investments, but become riskier than conventional investments when the world enters an economic downturn such as the global financial crisis. Having said this, if the fund wishes to remain long in SRIs during an economic downturn, SRIs in Australia are generally safer than SRIs in other countries.

Furthermore, these findings have compelling legal implications for conventional fund managers and trustees. On an economic view of trust law, a traditional investment trustee has a duty to maximize risk-adjusted returns (Boasson et al 2004, p. 56; and Martin 2009, pp. 1, 2 and 18). Moreover, a fund trustee risks breaching its fiduciary duties if it sacrifices adequate risk-adjusted returns in the pursuit of non-financial goals such as SRI (Ali and Gold 2002, pp. 18, 31).⁶ Also, there is evidence that many fund trustees and managers do fear the risk of lawsuits for breaches of their fiduciary or statutory duties if they invest in SRIs (Lane 2006, pp. 33-34), or at the least, believe that there is less risk of lawsuits if they invest in conventional (non-SRI) investments (Dobris 2008, p.761). Williams and Conley (2005a, p. 546n) even found that 55 percent of the largest mutual funds in the United States vote against all social and environmental proposals; 15 percent vote against nearly all such proposals; and 30 percent abstain from voting. Nor are the fundamental problems solved by using a combination of traditional Master Trusts and SRI sub-trusts since, unless the objects of a traditional Master Trust

⁶ See also, for example, the principles laid down in *Vatcher v Paull* [1915] AC 372, 378; *Chan v Zacharia* (1984) 154 CLR 178, 198 per Deane J; *Keech v Sandford* (1726) Cas. T K 61; and *Chief Commissioner of Stamp Duties (NSW) v Buckle and Others* (1998) 98 ATC 4097.

have been varied in accordance with a power of variation in the trust deed, the Master Trust is likely to be infected by the breach of duty.

Much, of course, depends on the objectives set out in the relevant trust deed (Finn 1989).⁷ Other things being equal, existing traditional (non-SRI) trusts cannot simply invest in SRIs if their deeds do not allow this. If they purport to do so, traditional fund trustees and managers do risk breaching their fiduciary or statutory duties not to unconscionably exercise a power for a purpose not justified by the trust deed⁸; or a statute (eg. invest in SRIs if the ability to do so is not permitted by the trust deed or legislation).

Such an exercise is likely to constitute a fraud on a power; not acting in the best interests of all beneficiaries, and perhaps pursuing its own interests⁹; not acting in good faith, and possibly misusing property held in a fiduciary capacity or engaging in conflicts of duty and interest¹⁰; and/or failing to treat beneficiaries of different classes fairly – for example, by advantaging some beneficiaries or beneficiary classes at the expense of others (Finn 1977, Ch.10).

Unless the trust deed contains an explicit power of variation (and many older trust deeds do not), such investment in SRIs could trigger a resettlement of the trust, with a concomitant substantial capital gains tax bill if the trust was settled after September 1985 (Australian Tax Office 1999). While this would not occur if the trust is a tax-exempt

⁷ See also *Hospital Products Ltd v United States Surgical Corp* (1984) 156 CLR 41, 68 per Gibbs CJ.

⁸ *Vatcher v Paull* [1915] AC 372, 378.

⁹ *Chan v Zacharia* (1984) 154 CLR 178, 198 per Deane J.

¹⁰ *Keech v Sandford* (1726) Cas. T K 61.

charitable purpose trust, most investment trusts in this context are not. It is this prospective pecuniary cost which is far more likely to precipitate a lawsuit than any umbrage about a breach of fiduciary responsibilities *per se*.

This situation is likely to continue unless perhaps relevant legislation is reformed to enhance the attractiveness of SRI as an investment. Whether this is viewed as desirable ultimately depends on the type of society we want – that is, on societal values and the political will for legislative reform. Possible reforms could include:

- allowing conventional fund managers and trustees to invest in SRI without triggering resettlement of their trusts, together with the resultant massive capital gains tax bills this would produce;
- tax concessions for SRI (eg. a 150% tax deduction or investment allowance for SRI; and
- allowing SRI sub-funds to obtain Deductible Gift Recipient status from the Australian Tax Office and other taxation authorities.

A detailed analysis of such proposals must, however, be the subject of future research.

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